Tax Law Changes–
How Do They Affect Me?

The tax deadline has passed, do you know how you were impacted by the new enactment of the Tax Cuts and Jobs Act? Many Americans often get too caught up with how much taxes they have to pay or how much their refund will be. What is often overlooked however, is even if your income stays relatively the same there are many other factors that will affect how much you are due to pay or receive. Some factors include estimated taxes that were paid during the year, overpayment that is being applied from your last year's taxes, tax withholdings from your wages and IRA distributions, etc. Therefore, your unique tax situation should be analyzed from all angles.

A helpful way to compare the impact of the new tax law is by calculating your effective tax rate between the two years. Effective tax rate is your total tax (line 15 on page 2 of the 2018 Form 1040) over your total income for the year. This rate measures the proportion of your income that is used to pay your tax obligation. By comparing the rate between the two years, you can see for which year you paid more tax relative to the income received during the year. Keep in mind that your effective tax rate is different from the marginal tax rate, which is what most people refer to as their "tax bracket". Effective tax rate reflects how much tax you are actually paying, while marginal tax rate is the tax rate for each incremental dollar of income.

Another item that most Americans will see major changes to is their standard and itemized deductions. For those who typically take the standard deduction, the new tax laws entitle them to an even bigger deduction. For those who have been taking the itemized deduction, review Schedule A of your tax return and compare it to last year's to see which deductions you took in the past and which are now subject to limitations and/or have been eliminated. Some of the more notable changes include:

- Deduction on payments for real estate taxes and state and local income taxes are now limited to $10,000. This limitation stays the same regardless of your filing status.
- Miscellaneous tax deduction that was once deductible if it exceeds 2% of your adjusted gross income has now been suspended. Some of these deductions include tax preparation fees, unreimbursed employee business expenses, and investment expenses.
- Home equity loan interest can only be deducted if the loan proceeds are used to buy, build, or substantially improve your home

For a more comprehensive list of changes refer to the IRS website:
(https://www.irs.gov/newsroom/individuals).

... Continues

ROCKLAND TRUST
Investment Management Group

Not FDIC Insured • Not Bank Guaranteed • May Lose Value
Not a Deposit • Not Insured by any Federal Government Agency

As noted previously, the state and local tax (SALT) deduction has been restricted to a maximum of $10,000 for residents across the entire US. For those who are living in the wealthier states with higher income and real estate tax, they will see a more significant impact from this limitation than other states with lower income tax and standard of living as they will lose more tax benefit of their tax payments. For residents from states such as California and New York, their SALT deduction has been statistically a higher percentage of their adjusted gross income (AGI) than residents of states such as North Dakota and Wyoming.[1] Additionally, the $10,000 threshold also applies to most filing statuses in which case single filers will have the same limitation as married couples. The joint filers will lose $10,000 worth of deduction in comparison to two single filers.

If you find yourself now taking the standard deduction instead of itemized deduction based on all the changes noted above and will no longer be able to get its tax deduction benefit, you should consider alternative strategies to get the most out of your charitable donations. For IRA owners who are 70 ½ or older, you can transfer up to $100,000 per year directly to an eligible charity from your IRA. The donation value will satisfy as part of your required minimum distribution (RMD) and it will also be excluded as income from your tax return. Alternatively, you could consider the bundling strategy by giving a larger donation in one year instead of contributing smaller amounts spread throughout the year.

As part of the new tax reform, the Tax Cuts and Jobs Act significantly raises the Alternative Minimum Tax, or AMT, exemption amounts and the phase-out thresholds for these exemptions. Due to these changes, those who were previously subject to the AMT may no longer be subject to such tax, and some of the itemized deductions noted above would be added back for the AMT calculation. Additionally, for those who are no longer subject to AMT, some of these deductions will now be limited or suspended instead.

The IRS is currently working to revise the W-4 form for paycheck withholdings in order to mitigate taxpayers' risks for owing a big tax bill by the filing deadline. The modifications will incorporate some of the major changes to itemized deductions including the ones noted above. To review tax withholdings the IRS offers a helpful **withholding calculator** (https://www.irs.gov/payments/tax-withholding) to see if your current tax withholdings need to be adjusted. The goal is to ensure withholdings break even with how much your tax liability is so you don't end up with a big balance due or a big refund received.

Keep in mind that a lot of the changes brought on by the Tax Cuts and Jobs Act will sunset by end of 2025. With our ever-changing tax environment, elements of your current financial life including for instance, an estate plan may no longer be applicable to your needs and objectives. Therefore, it is important to consistently stay proactive and review your financial and tax planning strategies with your accountant and financial planner to make sure they are still in line with your financial goals.

[1] https://taxfoundation.org/salt-deduction-benefit/

ROCKLAND TRUST
Investment Management Group

Not FDIC Insured • Not Bank Guaranteed • May Lose Value
Not a Deposit • Not Insured by any Federal Government Agency